

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name MERRITT TOWNSHIP	County Bay
Fiscal Year End 03/31/07	Opinion Date 07/03/07	Date Audit Report Submitted to State 8-16-07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 letter	
Certified Public Accountant (Firm Name) Weinlander Fitzhugh		Telephone Number 989-893-5577	
Street Address 1600 Center Ave		City Bay City	State Mi
Authorizing CPA Signature <i>Stu Reid</i>		Printed Name STU REID	Zip 48707
		License Number 1101008826	



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MERRITT TOWNSHIP
BAY COUNTY, MICHIGAN

FINANCIAL STATEMENTS
MARCH 31, 2007

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RSM McGladrey Network

An Independently Owned Member

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INDEPENDENT AUDITORS' REPORT

July 3, 2007

Township Board
Township of Merritt
Bay County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Merritt, Bay County, Michigan as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the index. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund, and the aggregate remaining fund information of the Township of Merritt as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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WEINLANDER FITZHUGH

Township Board
Township of Merritt
July 3, 2007
Page 2

The accompanying management's discussion and analysis and budgetary comparison information, as identified in the index, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Merritt Township's basic financial statements. The accompanying other supplemental information, as identified in the index, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Weinlander Fitzhugh

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2007

Our discussion and analysis of the Township of Merritt's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2007.

Financial Highlights

The General Fund reported a decrease in fund balance of \$6,000 resulting in a balance of \$325,000 at the end of the year.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Township of Merritt financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

The fund financial statements look at the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds – the General Fund, Road Construction Fund, Fire Equipment Fund, Water A&B Fund, and Water C,D &E with all other funds presented in one column as nonmajor funds. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements for the Township's water operations. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent or trustee.

The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund, Road Construction Fund and Fire Equipment Fund
(Required Supplemental Information)

Other Supplemental Information

Reporting the Township as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Township's finances is, "Is the Township better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2007

These two statements report the Township's net assets as a way to measure the Township's financial position. The change in net assets provides the reader a tool to assist in determining whether the Township's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, and facility conditions in arriving at their conclusion regarding the overall health of the Township.

Reporting the Township's Most Significant Funds

Fund Financial Statements

The Township's fund financial statements provide detailed information about the most significant funds – not the Township as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The Township's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the Township's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Proprietary Funds

These funds are reported in fund financial statements and generally report services for which the Township charges a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements.

This fund presents the Township's water operations that are managed by the Bay County Department of Water and Sewer. The Township has sole authority to set rates and is financially responsible for the integrity of the system. The financial statements reflect the financial position and results of operations for the system for the calendar year 2006.

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2007

Fiduciary Funds

The Township is the trustee, or fiduciary, for tax collections. All of the Township's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We excluded these activities from the Township's other financial statements because the assets cannot be utilized by the Township to finance its operations.

Government-wide Financial Analysis

Financial position - The statement of net assets provides the perspective of the Township as a whole. Exhibit A provides a summary of the Township's net assets as of March 31, 2007 and 2006.

	<u>Exhibit A</u>					
	Governmental Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets						
Current and other assets	\$ 1,579,000	\$ 1,572,000	\$ 226,000	\$ 213,000	\$ 1,805,000	\$ 1,785,000
Capital assets - net of accumulated depreciation	<u>595,000</u>	<u>323,000</u>	<u>3,619,000</u>	<u>3,792,000</u>	<u>4,214,000</u>	<u>4,115,000</u>
Total assets	<u>2,174,000</u>	<u>1,895,000</u>	<u>3,845,000</u>	<u>4,005,000</u>	<u>6,019,000</u>	<u>5,900,000</u>
Liabilities						
Current liabilities	51,000	13,000	257,000	273,000	308,000	286,000
Long-term liabilities	<u>123,000</u>	<u>0</u>	<u>2,779,000</u>	<u>2,922,000</u>	<u>2,902,000</u>	<u>2,922,000</u>
Total liabilities	<u>174,000</u>	<u>13,000</u>	<u>3,036,000</u>	<u>3,195,000</u>	<u>3,210,000</u>	<u>3,208,000</u>
Net Assets						
Invested in property and equipment - net of related debt	434,000	323,000	605,000	639,000	1,039,000	962,000
Restricted	816,000	801,000	0	0	816,000	801,000
Unrestricted	<u>750,000</u>	<u>758,000</u>	<u>204,000</u>	<u>171,000</u>	<u>954,000</u>	<u>929,000</u>
Total net assets	<u>\$ 2,000,000</u>	<u>\$ 1,882,000</u>	<u>\$ 809,000</u>	<u>\$ 810,000</u>	<u>\$ 2,809,000</u>	<u>\$ 2,692,000</u>

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2007

Exhibit A , on the previous page, focuses on net assets. The Township's total net assets were \$ 2,809,000 at March 31, 2007. Capital assets net of related debt, totaling \$1,039,000 compares the original costs, less depreciation of the Township's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets of \$816,000 are reported separately to show legal constraints from debt requirements and legislation that limit the Township's ability to use those net assets for day-to-day operations.

The \$954,000 of unrestricted net assets of governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the General, Special Revenue, Debt Service, Capital Projects and Enterprise Funds will have a significant impact on the change in unrestricted net assets from year to year.

Results of operations - The results of this year's operations for the Township as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended March 31, 2007. Exhibit B provides a summary of the Township's operations for March 31, 2007 and 2006.

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2007

Exhibit B

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenue						
Program revenue:						
Charges for services	\$ 53,000	\$ 22,000	\$ 522,000	\$ 475,000	\$ 575,000	\$ 497,000
Grants and contributions	0	25,000	0	0	0	25,000
General revenue:						0
Property taxes	643,000	626,000	0	0	643,000	626,000
State revenue sharing	106,000	106,000	0	0	106,000	106,000
Investment earnings	56,000	34,000	8,000	4,000	64,000	38,000
Other	137,000	84,000	0	0	137,000	84,000
Total revenue	<u>995,000</u>	<u>897,000</u>	<u>530,000</u>	<u>479,000</u>	<u>1,525,000</u>	<u>1,376,000</u>
Function/Program Expenses						
General government	180,000	154,000	0	0	180,000	154,000
Public safety	95,000	77,000	0	0	95,000	77,000
Public works	190,000	151,000	0	0	190,000	151,000
Recreation and culture	2,000	1,000	0	0	2,000	1,000
Sanitation	65,000	63,000	0	0	65,000	63,000
Protective inspections	10,000	10,000	0	0	10,000	10,000
Other	3,000	0	0	0	3,000	0
Interest on long term debt	6,000	0	0	0	6,000	0
Payment to Enterprise Fund	326,000	349,000	0	0	326,000	349,000
Water	0	0	387,000	333,000	387,000	333,000
Total expenses	<u>877,000</u>	<u>805,000</u>	<u>387,000</u>	<u>333,000</u>	<u>1,264,000</u>	<u>1,138,000</u>
Increase in Net Assets	<u>\$ 118,000</u>	<u>\$ 92,000</u>	<u>\$ 143,000</u>	<u>\$ 146,000</u>	<u>\$ 261,000</u>	<u>\$ 238,000</u>

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2007

As reported in the statement of activities, the cost of all of our governmental and business-type activities this year was \$1,264,000. Certain activities were partially funded by \$575,000 from those who benefited from the programs. We paid for the remaining "public benefit" portion of our governmental and business-type activities with \$643,000 in taxes, \$106,000 in State revenue sharing, and with our other revenues, such as interest and miscellaneous revenues.

The Township experienced an increase in net assets of \$261,000 mainly due to FEMA grant proceeds for the purchase of a fire pumper truck.

The Township's Funds

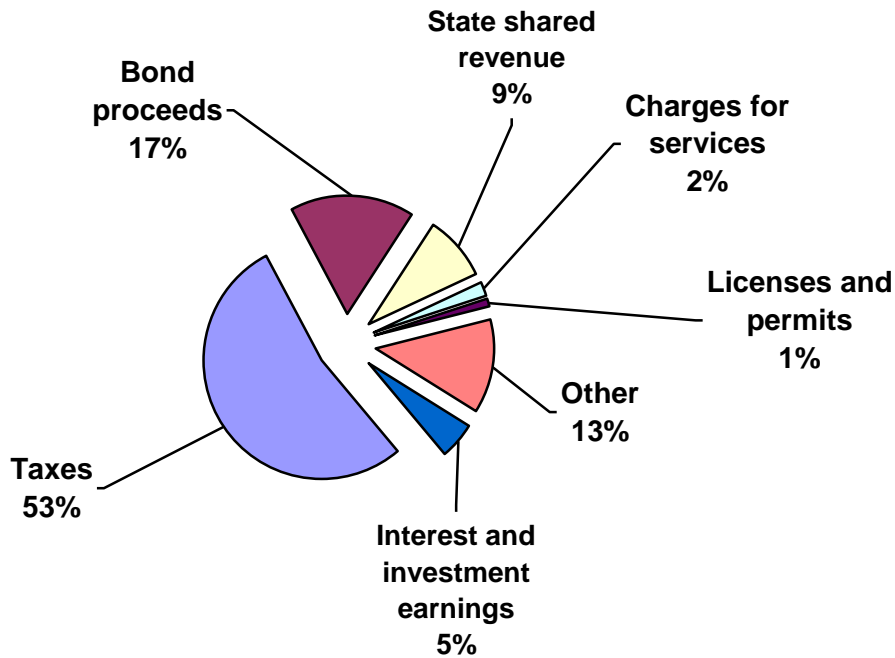
The Township uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

The Township's governmental funds reported a combined fund balance of \$1,566,000, which is above last year's total of \$1,559,000. The schedule below details the fund balance and the total change in fund balances as of March 31, 2007 and 2006.

	<u>Fund Balance</u> <u>March 31, 2007</u>	<u>Fund Balance</u> <u>March 31, 2006</u>	<u>Increase</u> <u>(Decrease)</u>
General fund	\$ 325,000	\$ 331,000	\$ (6,000)
Special revenue funds	425,000	427,000	(2,000)
Debt service funds	813,000	798,000	15,000
Capital projects fund	3,000	3,000	0
Total	<u>\$ 1,566,000</u>	<u>\$ 1,559,000</u>	<u>\$ 7,000</u>

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2007

The graph below details the major sources of the Township's revenues.



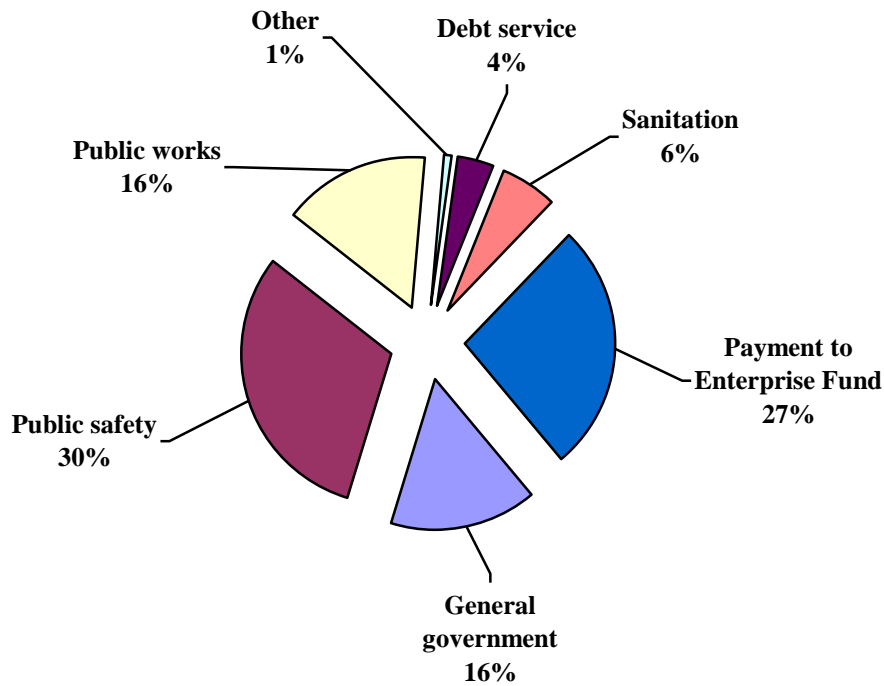
The chart below compares current year revenues with last year.

	2007	2006	Percentage Change
<i>Revenues by Function</i>			
Taxes	\$ 643,000	\$ 626,000	3%
State shared revenue	106,000	106,000	0%
Charges for services	21,000	15,000	40%
Licenses and permits	9,000	7,000	29%
Interest and investment earnings	56,000	34,000	65%
Bond proceeds	200,000	0	
Other	160,000	109,000	47%
Total	<u>\$ 1,195,000</u>	<u>\$ 897,000</u>	<u>33%</u>

Revenues are up \$298,000 or 33% mainly due to the loan proceeds from the fire pumper truck, proceeds from the FEMA grant, and an increase in interest revenue.

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2007

The graph below details the major expenditure categories of the Township.



The chart below compares current year expenditures with last year.

	2007	2006	Percentage Change
<i>Expenditures by Function</i>			
General government	\$ 185,000	\$ 169,000	9%
Public safety	362,000	50,000	624%
Public works	190,000	151,000	26%
Sanitation	65,000	63,000	3%
Other	15,000	41,000	-64%
Debt service	45,000	0	
Payment to Enterprise Fund	326,000	349,000	-7%
Total	<u>\$ 1,188,000</u>	<u>\$ 823,000</u>	<u>44%</u>

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2007

Expenditures are up \$365,000 or 44% from the prior year mostly due to the purchase of a new fire truck.

Water System Fund - The Township's Proprietary fund (the Bay County DWS Merritt-Portsmouth Water Enterprise Fund) reported net assets of \$809,000 which is an increase of \$146,000 over last year's net assets of \$666,000. A prior period adjustment of \$143,000 was made to the beginning net assets to account for the difference in percentages used by the DWS.

General Fund Budgetary Highlights

Over the course of the year, the Township revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- There was no change in the original budget for revenues. Budget expenditures did not increase in total but increased and or decreased per line item. Those changes were mainly because of an increase in road patrol, wage expenditures increased in the fire department due to having 8 additional firefighters, and the costs related to the Reese Road project were greater than anticipated.
- Actual revenues exceeded budgeted revenues by approximately \$49,000 during the fiscal year. The excess is mostly due to the fact that interest income was greater than as anticipated when the budget was prepared.
- Actual expenditures for the year were approximately \$286,000 less than anticipated mainly in the contingency, general government area and capital outlay. The excess is mostly due to the fact that the Township anticipated greater expenditures when the budget was prepared than what actually occurred.

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2007

Capital Assets

At March 31, 2006, the Township had \$4.2 million invested in a broad range of capital assets, including land, buildings, furniture, equipment and water systems. This amount represents a net increase (including additions and disposals) of approximately \$102,000 from last year.

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	\$ 94,000	\$ 94,000	\$ 0	\$ 0	\$ 94,000	\$ 94,000
Buildings and improvements	812,000	808,000	0	0	812,000	808,000
Vehicles	506,000	341,000	0	0	506,000	341,000
Machinery and equipment	222,000	134,000	0	0	222,000	134,000
Water system	0	0	4,585,000	4,752,000	4,585,000	4,752,000
 Total capital assets	 1,634,000	 1,377,000	 4,585,000	 4,752,000	 6,219,000	 6,129,000
 Less accumulated depreciation	 1,039,000	 1,054,000	 966,000	 960,000	 2,005,000	 2,014,000
 Net capital assets	 <u>\$ 595,000</u>	 <u>\$ 323,000</u>	 <u>\$ 3,619,000</u>	 <u>\$ 3,792,000</u>	 <u>\$ 4,214,000</u>	 <u>\$ 4,115,000</u>

This year's additions of \$337,000 consisted of, an Automark marking device, firefighter equipment and gear, pumper fire truck, computer equipment, sidewalk improvements and other equipment.

We present more detailed information about our capital assets in the notes to the financial statements. The township does not anticipate purchasing any additional capital outlay next year.

Merritt Township
Management's Discussion & Analysis
For the Year Ended March 31, 2007

Debt

At the end of this year, the Township had \$3.15 million in long-term debt outstanding versus \$3.2 in the previous year – a change of 2%. The Township's debt is related to water system improvements and is reported in the proprietary fund as the Bay County Department of Water and Sewer Merritt-Portsmouth Enterprise Fund and an installment purchase contract for a fire truck. This debt is summarized as follows:

	<u>2007</u>	<u>2006</u>
Governmental activities	\$ 160,000	\$ 0
Business-type activities	<u>2,993,000</u>	<u>3,206,000</u>
	<u><u>\$ 3,153,000</u></u>	<u><u>\$ 3,206,000</u></u>

The Township's General Obligation Bond rating continues to be equivalent to the State's credit rating. We are anticipating issuing debt next year to finance the waterline construction in the Reese Road water project.

Factors Expected to Have an Effect on Future Operations

The road millage was voted on and will continue for 5 years at 1.5 mills.

Contacting The Township's Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, contact the Township Clerk's Office at 48 East Munger Road, Munger, MI 48747

Merritt Township
Statement of Net Assets
March 31, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and investments	\$ 1,523,775	\$ 177,068	\$ 1,700,843
Receivables:			
Accounts receivable	0	46,042	46,042
Accrued interest receivable	0	1,360	1,360
Taxes receivable	55,128	0	55,128
Prepaid expenses	0	1,961	1,961
Capital assets less accumulated depreciation of \$2,005,272	595,097	3,618,869	4,213,966
Total assets	2,174,000	3,845,300	6,019,300
<u>Current Liabilities</u>			
Bonds payable	37,185	219,514	256,699
Accounts payable	11,887	16,056	27,943
Accrued interest payable	658	20,399	21,057
Hall security deposit	1,100	457	1,557
Compensated absences	0	952	952
Total current liabilities	50,830	257,378	308,208
<u>Long-term Liabilities</u>			
Compensated absences	0	5,397	5,397
Bonds payable	122,877	2,773,921	2,896,798
Total long-term liabilities	122,877	2,779,318	2,902,195
Total liabilities	173,707	3,036,696	3,210,403
<u>Net Assets</u>			
Investment in capital assets - net of related debt	434,377	605,035	1,039,412
Restricted for debt service	812,549	0	812,549
Restricted for capital projects	3,316	0	3,316
Unrestricted	750,051	203,569	953,620
Total net assets	\$ 2,000,293	\$ 808,604	\$ 2,808,897

See accompanying notes to financial statements.

Merritt Township
Statement of Activities
For the Year Ended March 31, 2007

Functions/Programs	Net (Expenses) Revenue and Changes in Net Assets					
	Program Revenues			Assets		
	Expenses	Charges for Services	Operating Grants/Contributions	Governmental Activities	Business-type Activities	Total
Primary government:						
General government	\$ 179,933	\$ 44,788	\$ 0	\$ (135,145)	\$ 0	\$ (135,145)
Public safety	94,552	0	0	(94,552)	0	(94,552)
Public works	189,688	0	0	(189,688)	0	(189,688)
Recreation and culture	2,420	0	0	(2,420)	0	(2,420)
Sanitation	65,314	0	0	(65,314)	0	(65,314)
Protective inspections	10,363	8,576	0	(1,787)	0	(1,787)
Other	3,207	0	0	(3,207)	0	(3,207)
Interest on long term debt	5,908	0	0	(5,908)	0	(5,908)
Payment to Enterprise Fund	325,658	0	0	(325,658)	0	(325,658)
Total governmental activities	877,043	53,364	0	(823,679)	0	(823,679)
Business-type activities:						
Water	387,198	521,577	0	0	134,379	134,379
Total business-type activities	387,198	521,577	0	0	134,379	134,379
Total	\$ 1,264,241	\$ 574,941	\$ 0	(823,679)	134,379	(689,300)
General revenues:						
Taxes				642,946	0	642,946
State shared revenue				105,634	0	105,634
Investment earnings				56,116	7,825	63,941
Other				137,077	0	137,077
Total general revenues				941,773	7,825	949,598
Change in net assets				118,094	142,204	260,298
Net assets - beginning of year as previously reported				1,882,199	809,971	2,692,170
Prior period adjustment				0	(143,571)	(143,571)
Net assets - beginning of year as restated				1,882,199	666,400	2,548,599
Net assets - end of year				\$ 2,000,293	\$ 808,604	\$ 2,808,897

See accompanying notes to financial statements.

Merritt Township
Governmental Funds
Balance Sheet
March 31, 2007

		Special Revenue Funds		Debt Service Funds		Other Nonmajor Governmental Funds	Total
	General	Road Construction Fund	Fire Equipment Fund	Water A & B	Water C, D & E		
<u>ASSETS</u>							
Cash and investments	\$ 328,076	\$ 193,515	\$ 93,200	\$ 443,282	\$ 231,263	\$ 234,439	\$ 1,523,775
Taxes receivable	4,106	7,173	4,498	14,452	15,985	8,914	55,128
Total assets	<u>\$ 332,182</u>	<u>\$ 200,688</u>	<u>\$ 97,698</u>	<u>\$ 457,734</u>	<u>\$ 247,248</u>	<u>\$ 243,353</u>	<u>\$ 1,578,903</u>
<u>LIABILITIES AND FUND BALANCE</u>							
<u>Liabilities</u>							
Accounts payable	\$ 6,022	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,865	\$ 11,887
Hall security deposits	1,100	0	0	0	0	0	1,100
Total liabilities	<u>7,122</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,865</u>	<u>12,987</u>
<u>Fund Balance</u>							
Undesignated	<u>325,060</u>	<u>200,688</u>	<u>97,698</u>	<u>457,734</u>	<u>247,248</u>	<u>237,488</u>	<u>1,565,916</u>
Total liabilities and fund balance	<u>\$ 332,182</u>	<u>\$ 200,688</u>	<u>\$ 97,698</u>	<u>\$ 457,734</u>	<u>\$ 247,248</u>	<u>\$ 243,353</u>	<u>\$ 1,578,903</u>

See accompanying notes to financial statements.

Merritt Township
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
March 31, 2007

Total fund balance - governmental funds	\$ 1,565,916
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Cost of the capital assets	1,634,385
Accumulated depreciation	(1,039,288)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(160,062)
Accrued interest payable is not included as a liability in governmental activities	<u>(658)</u>
Total net assets - governmental activities	<u><u>\$ 2,000,293</u></u>

See accompanying notes to financial statements.

Merritt Township
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended March 31, 2007

	Special Revenue Funds			Debt Service Funds		Other Nonmajor Governmental Funds	Total
	General	Road Construction Fund	Fire Equipment Fund	Water A & B	Water C, D & E		
<u>Revenues</u>							
Taxes	\$ 56,703	\$ 136,639	\$ 94,734	\$ 83,388	\$ 153,452	\$ 118,030	\$ 642,946
State shared revenue	104,211	0	0	0	0	1,423	105,634
Collection fees	24,175	0	0	0	0	0	24,175
Charges for services	20,613	0	0	0	0	0	20,613
Interest	33,453	0	0	18,759	3,588	316	56,116
Licenses and permits	8	0	0	0	0	8,568	8,576
Other	23,665	2,907	69,263	15,336	12,570	13,336	137,077
Total revenues	262,828	139,546	163,997	117,483	169,610	141,673	995,137
<u>Expenditures</u>							
General government	185,329	0	0	0	0	0	185,329
Public safety	55,700	0	305,887	0	0	0	361,587
Public works	26,355	163,333	0	0	0	0	189,688
Recreation activities	0	0	0	0	0	2,420	2,420
Protective inspections	0	0	0	0	0	10,363	10,363
Sanitation	0	0	0	0	0	65,314	65,314
Other	0	0	0	143	304	2,760	3,207
Debt Service:							
Principal	0	0	39,938	0	0	0	39,938
Interest	0	0	5,250	0	0	0	5,250
Payment to Enterprise Fund for debt service	0	0	0	82,162	181,408	62,088	325,658
Total expenditures	267,384	163,333	351,075	82,305	181,712	142,945	1,188,754
Excess of revenues over (under) expenditures	(4,556)	(23,787)	(187,078)	35,178	(12,102)	(1,272)	(193,617)
<u>Other Financing Sources (Uses)</u>							
Bond proceeds	0	0	200,000	0	0	0	200,000
Operating transfers in from other funds	0	0	0	0	0	31,525	31,525
Operating transfers out to other funds	(1,525)	0	0	0	0	(30,000)	(31,525)
Total other financing sources (uses)	(1,525)	0	200,000	0	0	1,525	200,000
Net change in fund balance	(6,081)	(23,787)	12,922	35,178	(12,102)	253	6,383
Fund balance - beginning of year	331,141	224,475	84,776	422,556	259,350	237,235	1,559,533
Fund balance - end of year	\$ 325,060	\$ 200,688	\$ 97,698	\$ 457,734	\$ 247,248	\$ 237,488	\$ 1,565,916

See accompanying notes to financial statements.

Merritt Township
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended March 31, 2007

Net change in fund balance - total governmental funds	\$ 6,383
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(56,563)
Capital outlay	328,994
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(200,000)
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(658)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long term debt)	<u>39,938</u>
Change in net assets of governmental activities	<u><u>\$ 118,094</u></u>

See accompanying notes to financial statements.

Merritt Township
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended March 31, 2007

Gross service charges	\$ 189,417
Water costs	<u>61,795</u>
Gross profit	<u>127,622</u>
Operating revenues:	
Service connections	5,925
Charges, fees, etc.	<u>160</u>
Total operating revenues	<u>6,085</u>
Operating expenses:	
Personal services	38,202
Utilities	3,322
Operation and maintenance	8,243
Administration	6,795
Fiscal and other charges	2,936
Depreciation	<u>111,226</u>
Total operating expenses	<u>170,724</u>
Operating income (loss)	(37,017)
Nonoperating revenues (expenses):	
Interest income	7,825
Interest expense	(151,135)
Payment by local unit	326,075
Payment to local unit	<u>(3,544)</u>
Changes in net assets	<u>142,204</u>
Net assets - beginning of year as previously reported	809,971
Prior period adjustment	<u>(143,571)</u>
Net assets - beginning of year as restated	<u>666,400</u>
Net assets - end of year	<u><u>\$ 808,604</u></u>

See accompanying notes to financial statements

Merritt Township
Statement of Cash Flows
Proprietary Fund
For the Year Ended March 31, 2007

Cash flows from operating activities:	
Cash received from customers	\$ 189,408
Cash payments to suppliers for goods and services	(119,475)
Cash payments to employees for services	(37,823)
Other operating income	<u>10,676</u>
Net cash provided by operating activities	<u>42,786</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(212,962)
Interest paid on long-term debt	(152,580)
Acquisition and construction of capital assets	(8,325)
Payments from local units	<u>322,531</u>
Net cash (used) by capital and related financing activities	<u>(51,336)</u>
Cash flows from investing activities:	
Interest income	<u>7,246</u>
Net decrease in cash and cash equivalents	(1,304)
Cash and cash equivalents, beginning of year	<u>178,372</u>
Cash and cash equivalents, end of year	<u><u>\$ 177,068</u></u>
<hr/> Reconciliation of Operating Income (Loss) To Net Cash Provided by Operating Activities <hr/>	
Operating income (loss)	\$ (37,017)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	111,226
Changes in assets and liabilities:	
Accounts receivable	(9)
Due from other governments	4,591
Advances	(1,605)
Accounts payable	(34,779)
Accrued liabilities	<u>379</u>
Net cash provided by operating activities	<u><u>\$ 42,786</u></u>

See accompanying notes to financial statements

Merritt Township
Statement of Fiduciary Net Assets
March 31, 2007

		<u>Tax Fund</u>
	<u>ASSETS</u>	
Cash and investments		<u>\$ 1,205</u>
	<u>LIABILITIES</u>	
Due to other governmental units		<u>\$ 1,205</u>

See accompanying notes to financial statements.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Merritt conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Merritt.

Reporting Entity

The Township of Merritt is governed by an elected five member council (Board). The accompanying financial statements present the financial position and results of operations for the Township and its component units, entities for which the government is considered to be financially accountable.

These statements also include the water system managed by the Bay County Department of Water and Sewer on behalf of the Township. GASB #34 now requires this activity to be reported in the Township's annual financial statements. The Township has sole authority to set rates and is financially responsible for the integrity of the system. The financial statements reflect the financial position and results of operations for the system for the calendar year 2006. This fund is the Township's only proprietary fund.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Government reports the following major funds:

General Fund - The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Road Construction Fund – The Road Construction Fund is used to record transactions relative to the repairs and upgrades to existing roads of the Township.

Fire Equipment Fund – The Fire Equipment Fund is used to record the purchases and repairs of fire equipment for the Township.

Water A & B – The Water A & B Fund is used to record transaction for the funding and payment of principal and interest of certain water main improvements.

Water C, D & E – The Water C, D & E Fund is used to record transactions for the funding and payment of principal and interest of certain water main improvements.

Bay County Department of Water and Sewer Merritt-Portsmouth Enterprise Fund – This fund accounts for the activities of providing water service to the public. These activities are managed by the Bay County Department of Water and Sewer on behalf of the Township. This fund is the Township's only proprietary fund.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 40 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, equipment and infrastructure is depreciated using the straight-line method over the following useful lives:

Buildings	15 to 40 Years
Building improvements	15 to 20 Years
Water systems	40 Years
Vehicles	7 to 12 Years
Machinery and equipment	5 to 7 Years

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The Township of Merritt follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township's supervisor submits to the Board a proposed budget prior to April 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund, Road Construction Fund and Fire Equipment Fund is presented as Required Supplemental Information.

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, the Township of Merritt incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund/Function</u>	<u>Total Appropriation</u>	<u>Amount of Expenditure</u>	<u>Budget Variance</u>
Fire Equipment Fund	\$304,228	\$351,075	\$46,847

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Government is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Township's deposits are in accordance with statutory authority.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and investments	<u>\$ 1,523,775</u>	<u>\$ 177,068</u>	<u>\$ 1,205</u>	<u>\$ 1,702,048</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificate of deposit)	\$ 1,701,898
Petty cash and cash on hand	<u>150</u>
	<u>\$ 1,702,048</u>

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of December 31, 2006, \$1,477,357 of the Township's bank balance of \$1,929,715 was exposed to custodial credit risk because it was uninsured and uncollateralized. Business-type activity funds of \$177,068 are with the Department of Water and Sewer. The composition of deposits and investments and the amount of deposits covered by federal depository insurance cannot be determined.

The Township's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Township for the current year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated				
Land	\$ 93,500	\$ 0	\$ 0	\$ 93,500
Capital assets being depreciated:				
Buildings and improvements	807,766	4,722	0	812,488
Vehicles	341,585	236,025	71,390	506,220
Machinery and equipment	133,930	88,247	0	222,177
Subtotal	<u>1,283,281</u>	<u>328,994</u>	<u>71,390</u>	<u>1,540,885</u>
Less accumulated depreciation for:				
Buildings and improvements	683,720	8,265	0	691,985
Vehicles	263,154	26,633	71,390	218,397
Machinery and equipment	107,241	21,665	0	128,906
Subtotal	<u>1,054,115</u>	<u>56,563</u>	<u>71,390</u>	<u>1,039,288</u>
Net capital assets being depreciated	<u>229,166</u>	<u>272,431</u>	<u>0</u>	<u>501,597</u>
Governmental activities, total capital assets - net of depreciation	<u>\$ 322,666</u>	<u>\$ 272,431</u>	<u>\$ 0</u>	<u>\$ 595,097</u>
<u>Business-type activities:</u>				
Capital assets being depreciated:				
Water system	\$ 4,576,527	\$ 8,326	\$ 0	\$ 4,584,853
Less accumulated depreciation for:				
Water system	<u>854,758</u>	<u>111,226</u>	<u>0</u>	<u>965,984</u>
Business-type activities, total capital assets, net of depreciation	<u>\$ 3,721,769</u>	<u>\$ (102,900)</u>	<u>\$ 0</u>	<u>\$ 3,618,869</u>

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 9,222
Public safety	<u>47,341</u>
Total governmental activities depreciation expense	<u>\$ 56,563</u>
Business-type activities:	
Water	<u>\$ 111,226</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A summary of inter-fund transfer balances at March 31, 2007 is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 0	\$ 1,525
Liquor Law Enforcement	1,525	0
Water F,G & H	30,000	0
Water Blumfield	<u>0</u>	<u>30,000</u>
	<u>\$ 31,525</u>	<u>\$ 31,525</u>

There were no inter-fund receivable or payable balances at March 31, 2007.

Transfers are used to (1) supplement operational costs, and (2) reflect funding support for debt service.

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 6- LONG-TERM DEBT

The Township's debt is related to water system improvements and a fire pumper truck. Portions of the Township's debt are reported in the proprietary fund at the Bay County Department of Water and Sewer Merritt Enterprise Fund. The following detail shows what is owed by the Township, but does not agree exactly to the financial statements because (1) the amounts are reported as of December 31, 2006, and (2) a percentage allocation was applied to the total DWS amounts to arrive at Merritt's portion. The difference is not significant.

All of the Township's debt is considered special assessment bonds except for the 1977 bond issue, which is a revenue bond. The Township has pledged its full faith and credit for the special assessment bonds.

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>			
2006 Installment Purchase Agreement, due in annual installments through March 2011, bearing interest rate of 5%.	<u>\$ 0</u>	<u>\$ 160,062</u>	<u>\$ 160,062</u>

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 6 - LONG-TERM DEBT (CONTINUED)

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
<u>Business-type Activities</u>			
1977 Merritt-Portsmouth Water Extension Bonds, due in annual installments through 2016 with an interest rate of 5%. The bonds are being repaid by customer charges.	\$ 164,619	\$ (13,266)	\$ 151,353
1998 Merritt-Portsmouth Townships Water Extension General Obligation Bonds, dated July 1, 1998, due in annual installments through May 1, 2018, bearing interest rates of 4.7% to 4.75%.	853,495	(61,986)	791,509
2000 Merritt Township Water Extension General Obligation Bonds, dated September 1, 2000, due in annual installments through November 1, 2020, bearing interest rates of 4.85% to 5.25%.	1,655,000	(100,000)	1,555,000
2002 Installment Purchase Agreement, due in annual installments through November 1, 2017, bearing interest rate of 5.9%.	84,000	(7,000)	77,000
2002 Special Assessment Water Bonds, due in semi-annual installments through November 1, 2017, bearing interest rates of 2.45% to 5.15%.	168,000	(13,000)	155,000
2003 Installment Purchase Agreement, due in annual installments through November 1, 2017, bearing interest rate of 4.59%.	36,000	(3,000)	33,000
2004 Installment Purchase Agreement, due in annual installments through September 2019, bearing interest rate of 4.11%.	127,259	(7,195)	120,064
2005 Installment Purchase Agreement, due in annual installments through March 2019, bearing interest rate of 4.45%.	<u>118,024</u>	<u>(7,515)</u>	<u>110,509</u>
Total Business-Type Activities	<u>\$ 3,206,397</u>	<u>\$ (212,962)</u>	<u>\$ 2,993,435</u>

Merritt Township
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Long-term obligation activity can be summarized as follows:

	Balance April 1, 2006	Additions	Retirements and Payments	Balance March 31, 2007	Amount Due Within One Year
<u>Governmental Activities</u>					
General Obligation Bonds	\$ 0	\$ 200,000	\$ (39,938)	\$ 160,062	\$ 37,185
<u>Business-Type Activities</u>					
Revenue Bonds	\$ 3,206,397	\$ 0	\$ (212,962)	\$ 2,993,435	\$ 220,719

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End March 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 37,185	\$ 8,003	\$ 220,719	\$ 138,093
2009	39,045	6,144	222,604	128,083
2010	40,997	4,192	230,698	117,808
2011	42,835	2,142	231,438	107,295
2012	0	0	232,212	100,536
2013-2017	0	0	1,175,750	319,691
2018-2020	0	0	665,845	59,151
Total	\$ 160,062	\$ 20,481	\$ 2,979,266	\$ 970,657

NOTE 7 – PENSION PLAN

The Township provides pension benefits through a defined contribution plan with Manulife Financial. The Township contributes 15% of compensation for eligible employees. The Township's pension expense for the year ended March 31, 2007 amounted to \$7,425.

NOTE 8 – PRIOR PERIOD ADJUSTMENT

The beginning net assets of the business-type activities was reduced by the amount of \$143,571. In 2006, the Department of Water and Sewer separated Merritt and Portsmouth into their own districts. When the Department of Water and Sewer did this, they allocated a lower percentage to Merritt Township than in previous years, leaving the business-type activities with a lower beginning net assets.

Merritt Township
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended March 31, 2007

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Taxes	\$ 51,750	\$ 51,750	\$ 56,703	\$ 4,953
State shared revenue	100,000	100,000	104,211	4,211
Collection fees	23,465	23,465	24,175	710
Charges for services	19,050	19,050	20,613	1,563
Interest	12,650	12,650	33,453	20,803
Licenses and permits	15	15	8	(7)
Other	7,000	7,000	23,665	16,665
Total revenues	213,930	213,930	262,828	48,898
<u>Expenditures</u>				
General government	191,950	195,850	185,329	10,521
Public safety	49,000	58,500	55,700	2,800
Public works	27,800	27,800	26,355	1,445
Capital outlay	10,000	10,000	0	10,000
Contingency	275,024	261,624	0	261,624
Total expenditures	553,774	553,774	267,384	286,390
Excess (deficiency) of revenues over expenditures	(339,844)	(339,844)	(4,556)	335,288
<u>Other Financing (Uses)</u>				
Operating transfers in to other funds	51,754	51,754	0	(51,754)
Operating transfers (out) to other funds	(1,525)	(1,525)	(1,525)	0
Total other financing sources (uses)	50,229	50,229	(1,525)	(51,754)
Net change in fund balance	(289,615)	(289,615)	(6,081)	283,534
Fund balance - beginning of year	331,141	331,141	331,141	0
Fund balance - end of year	\$ 41,526	\$ 41,526	\$ 325,060	\$ 283,534

Merritt Township
Required Supplemental Information
Budgetary Comparison Schedule - Road Construction Fund
For the Year Ended March 31, 2007

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Property taxes	\$ 124,950	\$ 124,950	\$ 136,639	\$ 11,689
Miscellaneous revenues	2,965	3,000	2,907	(93)
Total revenues	127,915	127,950	139,546	11,596
<u>Expenditures</u>				
Highways, street and bridges	194,250	194,250	163,333	30,917
Contingency	150,430	150,430	0	150,430
Total expenditures	344,680	344,680	163,333	181,347
Excess (deficiency) of revenues over expenditures	(216,765)	(216,730)	(23,787)	192,943
Fund balance - beginning of year	224,475	224,475	224,475	0
Fund balance - end of year	<u>\$ 7,710</u>	<u>\$ 7,745</u>	<u>\$ 200,688</u>	<u>\$ 192,943</u>

Merritt Township
Required Supplemental Information
Budgetary Comparison Schedule - Fire Equipment Fund
For the Year Ended March 31, 2007

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Property taxes	\$ 86,492	\$ 86,492	\$ 94,734	\$ 8,242
Miscellaneous revenues	69,263	69,263	69,263	0
Total revenues	155,755	155,755	163,997	8,242
<u>Expenditures</u>				
Public safety	181,086	215,686	305,887	(90,201)
Debt Service:				
Principal	39,938	39,938	39,938	0
Interest	5,250	5,250	5,250	0
Contingency	77,954	43,354	0	43,354
Total expenditures	304,228	304,228	351,075	(46,847)
Excess (deficiency) of revenues over expenditures	(148,473)	(148,473)	(187,078)	(38,605)
<u>Other Financing (Uses)</u>				
Bond proceeds	157,011	157,011	200,000	42,989
Operating transfers (out) to other funds	(51,754)	(51,754)	0	51,754
Total other financing sources (uses)	105,257	105,257	200,000	94,743
Net change in fund balance	(43,216)	(43,216)	12,922	56,138
Fund balance - beginning of year	84,776	84,776	84,776	0
Fund balance - end of year	<u>\$ 41,560</u>	<u>\$ 41,560</u>	<u>\$ 97,698</u>	<u>\$ 56,138</u>

Merritt Township
Other Supplemental Information
Combining Balance Sheet -
Nonmajor Governmental Funds
March 31, 2007

	Special Revenue Funds					Debt Service Funds				Capital Projects Fund	
	Liquor Law Enforcement Fund	Garbage and Rubbish Collection Fund	Recreation Fund	Inspection Fund	Budget Stabilization Fund	Water F, G & H	Water Blumfield	Water I	Water J	Water Construction Fund	Totals
<u>ASSETS</u>											
Cash and investments	\$ 503	\$ 99,024	\$ 1,424	\$ 1,290	\$ 23,209	\$ 45,632	\$ 17,682	\$ 29,397	\$ 12,962	\$ 3,316	\$ 234,439
Taxes receivable	0	7,020	0	0	0	1,894	0	0	0	0	8,914
Total assets	<u>\$ 503</u>	<u>\$ 106,044</u>	<u>\$ 1,424</u>	<u>\$ 1,290</u>	<u>\$ 23,209</u>	<u>\$ 47,526</u>	<u>\$ 17,682</u>	<u>\$ 29,397</u>	<u>\$ 12,962</u>	<u>\$ 3,316</u>	<u>\$ 243,353</u>
<u>LIABILITIES AND FUND BALANCE</u>											
<u>Liabilities</u>											
Accounts payable	\$ 0	\$ 5,865	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,865
<u>Fund Balance</u>											
Undesignated	<u>503</u>	<u>100,179</u>	<u>1,424</u>	<u>1,290</u>	<u>23,209</u>	<u>47,526</u>	<u>17,682</u>	<u>29,397</u>	<u>12,962</u>	<u>3,316</u>	<u>237,488</u>
Total liabilities and fund balance	<u>\$ 503</u>	<u>\$ 106,044</u>	<u>\$ 1,424</u>	<u>\$ 1,290</u>	<u>\$ 23,209</u>	<u>\$ 47,526</u>	<u>\$ 17,682</u>	<u>\$ 29,397</u>	<u>\$ 12,962</u>	<u>\$ 3,316</u>	<u>\$ 243,353</u>

Merritt Township
Other Supplemental Information
Combining Statement of Revenues, Expenditures, and Changes
in Fund Balance - Nonmajor Governmental Funds
For the Year Ended March 31, 2007

	Special Revenue Funds					Debt Service Funds				Capital Projects Fund	
	Liquor Law Enforcement Fund	Garbage and Rubbish Collection Fund	Recreation Fund	Inspection Fund	Budget Stabilization Fund	Water F, G & H	Water Blumfield	Water I	Water J	Water Fund Construction	Totals
<u>Revenues</u>											
Taxes	\$ 0	\$ 77,760	\$ 0	\$ 0	\$ 0	\$ 16,756	\$ 1,949	\$ 10,487	\$ 11,078	\$ 0	\$ 118,030
State shared revenue	1,423	0	0	0	0	0	0	0	0	0	1,423
Interest	0	0	0	0	0	53	67	196	0	0	316
Other	0	0	200	0	0	6,477	6,659	0	0	0	13,336
Licenses and permits	0	0	0	8,568	0	0	0	0	0	0	8,568
Total revenues	1,423	77,760	200	8,568	0	23,286	8,675	10,683	11,078	0	141,673
<u>Expenditures</u>											
Recreation activities	0	0	2,420	0	0	0	0	0	0	0	2,420
Protective inspections	0	0	0	10,363	0	0	0	0	0	0	10,363
Sanitation	0	65,314	0	0	0	0	0	0	0	0	65,314
Other	2,560	0	0	0	0	0	0	0	200	0	2,760
Payment to Enterprise Fund for debt service	0	0	0	0	0	36,562	0	12,741	12,785	0	62,088
Total expenditures	2,560	65,314	2,420	10,363	0	36,562	0	12,741	12,985	0	142,945
Excess of revenues over (under) expenditures	(1,137)	12,446	(2,220)	(1,795)	0	(13,276)	8,675	(2,058)	(1,907)	0	(1,272)
<u>Other Financing Sources</u>											
Operating transfers in	1,525	0	0	0	0	30,000	(30,000)	0	0	0	1,525
Net change in fund balance	388	12,446	(2,220)	(1,795)	0	16,724	(21,325)	(2,058)	(1,907)	0	253
Fund balance - beginning of year	115	87,733	3,644	3,085	23,209	30,802	39,007	31,455	14,869	3,316	237,235
Fund balance - end of year	\$ 503	\$ 100,179	\$ 1,424	\$ 1,290	\$ 23,209	\$ 47,526	\$ 17,682	\$ 29,397	\$ 12,962	\$ 3,316	\$ 237,488



WEINLANDER FITZHUGH

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July 3, 2007

Township Board
Township of Merritt
Bay County, Michigan

In planning and performing our audit of the financial statements of Township of Merritt as of and for the year ended March 31, 2007, in accordance with U.S. generally accepted auditing standards, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies. However as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Financial Statement Presentation

As part of our consideration of the internal control over financial reporting, we as auditors are not allowed to be considered to be part of the Township's internal controls. In taking this required position, we must consider whether the Township has the ability, on its own, to monitor and report financial activity in accordance with our professional standards without auditor intervention.

The Township uses accounting software generated financial statements as a management tool to monitor the financial status of the Township, prepare budgets and to compare current financial trends to historical information which is appropriate for the Township. Due to the complexity of the required government-wide financial statements, Township Board

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WEINLANDER FITZHUGH

Township of Merritt
July 3, 2007
Page 2

proprietary fund reporting and related note disclosures, the Township does not demonstrate the expertise to properly report in accordance with U.S. generally accepted accounting principles without auditor intervention.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

Segregation of duties

One of the strongest controls in an internal control system is known as "segregation of duties." This means that there are different individuals performing different duties within a specific accounting function. Having multiple individuals performing duties in the same accounting function acts as a check and balance.

As is common in many small organizations, there is often only a few people, sometimes only one person, performing the accounting and financial functions. And it is also common to have these individuals concentrate their efforts in one area. While this is usually more cost efficient, it lends for a weak internal control system. There are generally insufficient checks and balances in place.

This is the situation with the Township of Merritt. Due to limited staff size, the Township has a lack of segregation of duties with respect to the cash receipts accounting functions because the duties are centralized with one individual.

This communication is intended solely for the information and use of management, and the Township Board and is not intended to be and should not be used by anyone other than these specified parties.

Weinlander Fitzhugh